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FINANCIAL TIMES

This week's Best of Lex

13 December 2013

Exclusively for Premium Subscribers

Letter from Lex: Volcker and Volvos

The Volcker rule was finally finalised this week – more than three years after it become law as part of the Dodd Frank. But who is counting, really? Its relentless specification of rules and exceptions obscures a hard fact: that the role of regulatory judgment cannot be eliminated. This is especially the case in something as slippery as preventing trading desks from using risk hedges to hide proprietary trading. (Such activity caused $6bn in losses for JPMorgan in the 'London Whale' debacle last year.)

Another rule – Revolution No. 9 – is posing a dilemma for investors in Chinese banks. Still in draft form, it is intended to shrink the interbank credit markets. In the long term, limiting credit growth – by reducing interbank lending or by any other means – may avoid a devastating credit crisis. In the short term, investors want their lenders profitable and their borrowers liquid. Meanwhile, for HSBC, floating a stake in its UK retail business would sit nicely with the UK's incoming ringfencing rules, which require retail operations to be split from investment banks.

The car market also revved up this week. General Motors said Mary Barra will take the wheel from departing chief executive Dan Akerson. With the Treasury having sold down its rescue stake and GM having caught up with rival Ford in the stock market, capital allocation is the most intriguing strategic issue facing Ms Barra – the first woman to run one of the major global carmakers. With $37bn in liquidity, there is some expectation of a dividend, but with $8bn of preferred stock held by unions and Canada, Ms Barra would be prudent to repay that before returning capital to shareholders. The US company also drew a line under an ownership tangle at France's PSA Peugeot Citroën, saying it would dispose of the 7 per cent stake acquired just under two years ago – a sensible move. As Peugeot tries to carve a cash injection and ownership arrangement involving the disparate interests of China's Dongfeng, the Peugeot family and the French government, GM's involvement was a complication too far. Meanwhile, Sweden's Volvo is stalled out. Chief executive Olof Persson moved into the driving seat in September 2011. Yet Volvo's shares, at SKr85, have gained less than 10 per cent since and generally underperformed peers.

There was some less than assuring news on insurers. Simon Lee is out as the CEO from RSA, which finds itself in crisis with problems in Ireland requiring a £135m capital injection. It faces a choice: a dull sale of parts of the business or a bold equity raise that could direct money to work finding growth, especially in emerging markets. Fellow UK insurer Prudential set out new targets this week and the message was clear – Asia is where the action is.

Email the Lex team in confidence at lex@ft.com.

Best of Lex articles

Volcker rule: overruled

Relentless specification of rules and exceptions obscures a hard fact – that the role of regulatory judgment cannot be eliminated.

China's banks: Revolution No. 9

To limit credit growth may avoid a devastating credit crisis but investors want lenders profitable and borrowers liquid.

HSBC: slicing and dicing

Bank should not float UK retail arm, which would sit nicely with UK's incoming ringfencing rules, simply to arbitrage a divergence in valuations.

General Motors: new driver at the wheel

GM's valuation has caught rival Ford's and it has the chance to push the button on capital return to shareholders. Barra needs to keep foot on the gas.

Peugeot: partnership dance

French carmaker Peugeot is saying farewell to General Motors as a shareholder. The big task remains, though: to land a new backer.

Volvo: more rocking than rolling

Swedish truckmaker has faced tough markets, but if there is minimal sign the company is moving towards defined goals, investors have every right to fret.

RSA: not so assured

The UK insurer's chief executive has stepped down after issuing three profit warnings in close succession.

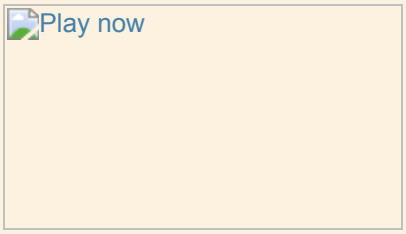
Prudential: target tapering

The UK-based insurance group has set out targets for 2014-17. But it is being less specific than it was last time it set out targets, in 2010.

Video of the week

EADS flies higher

EADS, which had sales of €56bn last year, has turned its focus to the bottom line after the collapse of its merger with BAE Systems a year ago. Investors love the results. Lex's Joseph Cotterill and Joseph Cotterill discuss developments at the aerospace and defence group.



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